DATE: July 3, 2014
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE
- **Blocks**: $1.9675, **Weekly Change**: +$0.0525
- **Barrels**: $1.9850, **Weekly Change**: +$0.0250

### CHICAGO AA BUTTER
- **Weekly Change**: N/C
- **Weekly Average**: $2.3900

### NON-FAT DRY MILK
- **Calif. Plants**: $2.3900, **Nat’l Plants**: $2.4350

### DRY WHEY
- **Dairy Market News**: w/e 07/04/14, $0.6575
- **National Plants**: w/e 06/28/14, $0.6831

### FRED DOUMA’S PRICE PROJECTIONS...
- **July 3 Est:** Quota cwt. $22.61, Overbase cwt. $20.92
- **June ’14 Final:** Quota cwt. $22.80, Overbase cwt. $21.10

### MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

**Milk & Dairy Markets**

CME spot butter prices climbed 11¢ Monday to $2.50/lb. But the market retreated for the rest of the holiday-shortened week and ended at $2.39, steady with last Friday. Cream supplies and butter inventories remain tight, and domestic demand is firm. Export demand is fading as the U.S. is wholly uncompetitive with overseas markets. On an equivalent fat basis, butter traded at the Global Dairy Trade (GDT) auction this week for around $1.40/lb. CME butter futures hold a 60¢ to 70¢ premium to GDT contracts in the same time-frame. A number of butter futures contracts traded limit up on Monday, gaining 5¢. They capped the recent string of gains with limit down performances on Tuesday and Wednesday.

Spot nonfat dry milk (NDM) prices dropped 3.5¢ this week to $1.7725. August through December Class IV futures reported losses between 54¢ and 83¢. Cheddar prices were also lower. Blocks fell 5.25¢ to $1.9675 and barrels lost 2.5¢, falling to $1.985. Class III futures were mostly 70¢ to 80¢ lower.

California 4a and 4b milk fared better in June than Federal Milk Marketing Order prices. USDA announced the June Class III milk price at $21.36/cwt., down $1.21 from May. This is $3.34 higher than the June 2013 Class III price. California 4b milk dropped 24¢ to $19.07. California 4a milk gained 62¢ in June and reached $23.19. This compares to Class IV milk at $23.13, up 48¢ from May.

The GDT served as the catalyst for the broad decline in dairy product prices this week. For the ninth time in ten auctions, the GDT index fell. On Tuesday it plummeted 4.9%. All products except buttermilk powder traded...
lower than at the previous auction. Butter was particularly weak; it lost 13.6%. Whole milk powder (WMP) dropped 5.4% and skim milk powder (SMP) was 0.9% lower. Cheddar prices fell 2.9%.

As is always the case in June and July, it is hot in central California and throughout the southern U.S. This has caused a normal, seasonal decline in milk production in much of the country. However, there is plenty of milk available in the northern half of the country, and cheesemakers in particular report that milk supplies are more than adequate. Cheese output reached almost 965 million pounds in May, according to the Dairy Products report. This was 2.2% greater than May 2013 production but 2% lower than April on a daily average basis. Whey production was strong in May and whey stocks climbed 62.9 million pounds, up 11.5% from the previous month.

Milk powder output reached all-time highs in May. Combined production of NDM and SMP rose to 221.8 million pounds, up 8% from the previous year and 3.5% greater than April on a daily average basis. Although production was impressive, manufacturers struggled to build inventories. In fact, manufacturers’ stocks of NDM fell to 220.6 million pounds. This is 4% lower than last year and 7.9% below April. As the Daily Dairy Report noted Thursday, this signals a shift in NDM holdings from manufacturers to end users, although it doesn’t necessarily imply an increase in consumption. Indeed, anecdotal reports suggest that milk powder supplies are beginning to back up as end users are able to await lower prices before making further purchases.

Butter output totaled 164.6 million pounds in May. This was 0.5% greater than May 2013 output, but down 3.9% from April on a daily average basis after USDA revised its estimate of April butter production upward by 7.3 million pounds. Butter inventories fell in April, counter to seasonal trends. In light of the 4.6% upward revision in April butter output, the drop in stocks implies that butter demand was truly booming earlier this year.

Dairy producers culled 48,674 cows in the week ending June 21. This was 9.3% lower than the same week in 2013. So far this year, dairy cow slaughter is 10.7% lower than last year. Beef prices continue to climb, but dairy profit margins are excellent and dairy producers are more concerned with keeping their barns full.

**Grain Markets**

Feed prices moved sharply lower this week in the wake of the long-awaited Acreage and Grain Stocks reports. July corn futures shed 26¢ this week and December futures lost 32¢. December futures settled at $4.1525/bushel and are fast approaching the January lows. July soybean futures dropped almost 45¢ and November soybean futures fell 94.5¢ to $11.335.

June 1 inventories of corn and soybeans both fell near the high end of the range of pre-report trade estimates. The larger-than-anticipated stocks figures imply that last year’s corn and soybean crops were greater than USDA had reported previously. This will help to resolve the tension between the tight old-crop soybean balance sheet and
the relative lack of frenzy in the cash soybean and soybean meal markets. Soybean supplies will remain constrained until harvest, but the Grain Stocks report showed that soybeans are not quite as scarce as previously believed.

For years, farmers have been incentivized to plant more corn and fewer soybeans. High soybean prices and a wet spring finally aligned farmers’ ability to maximize profits and rotate crops. They responded by planting a record-large 84.8 million acres of soybeans. This is 3.3 million acres more than they intended to plant in March, according to USDA’s Prospective Plantings report. Deferred soybean and soybean meal futures plunged after the report, and they continued to fall throughout the week.

Falling grain and oilseed prices will come as a huge relief to dairy producers. With milk prices likely past their peak, declining feed costs could allow profit margins to remain high even as milk checks wane.

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LATEST DAIRY CARES COLUMN POSTED ON OUR WEBSITE: (By Rob Vandenheuvel) The June 2014 Dairy Cares Report has been posted on our website at: http://www.milkproducerscouncil.org/cares.htm. This month’s column, which is pasted below, discusses some of the efforts and achievements not only in California, but throughout the U.S., towards a more sustainable industry.

Recent U.S. Dairy Sustainability Report highlights impressive advancements by dairy community

By Dairy Cares

Regular readers of this column already know about the many efforts of California dairy families to protect and preserve water resources, enhance air quality and develop renewable energy. In fact, these are just a few of the efforts being pursued to ensure ever-more-sustainable dairies across the Golden State.

But what people in California may not realize is how our efforts fit into the larger picture of increasingly sustainable dairy farming across the U.S., and the well-documented progress of dairy farms and processors’ longstanding efforts. A new report from the Innovation Center for U.S. Dairy outlines some of the remarkable advancements of the industry, including:

- **Producing more with less.** From 1944 to 2007, milk yield increased fourfold utilizing 90 percent less cropland, 76 percent less manure, 65 percent less water and 63 percent less carbon.

- **Expanded use of “cow power.”** There are now 197 operating dairy biogas digesters across the U.S., with California home to about 10 percent of the nation’s digesters. Since 2011, U.S. dairy digesters have generated more than 7.6 million British thermal units of renewable energy and reduced greenhouse gas emissions by more than 4.7 million metric tons of carbon dioxide equivalent. This reduction is equivalent to removing 999,096 cars from the road for a year.

- **Responsible animal care.** More than 70 percent of the U.S. milk supply is from participants in the National Dairy FARM Program, a comprehensive animal well-being educational and third-party verification program. Since enrollment opened in the program in September 2010, 9,179 on-farm evaluations have been conducted. Read more about California’s participation in the National Dairy FARM Program at http://goo.gl/0B5RE1.

While California dairy families are proud to be among the most innovative and progressive in the world when it comes to sustainability, we are also proud to be a part of a larger effort by American dairy farmers and processors to ensure that consumers can continue to enjoy nutritious, safe and affordable dairy products.

The MPC Board and staff would like to wish all of you and your families a wonderful Independence Day!